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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

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Business in Virginia September, 1988

Two strong moves, one positive and one negative, dominated the September economic scene. Building permits across the Commonwealth soared, up 56.8 percent for our sample of seventeen urban areas. This gain stems mainly from a spectacular increase in Richmond. However, eleven of the seventeen areas experienced higher dollar amounts of permits than in September 1987; the rebound in building plans was not confined to only a few areas. Rising interest rates and slowing demand for structures, both houses and nonresidential, have not yet deterred most of Virginia's builders. Such huge monthly jumps in permits are rare, though, and will be rarer still in the coming months as Virginia's general economic growth follows a more moderate course.

The other strong September move was the 12.0 percent decline in new car registrations. The demand for new automobiles slumped significantly this summer. We now have had four consecutive months of sales below those a year ago. The cumulative result is new car registrations for the first three quarters of 1988 are just even with 1987 sales for the same period, and well below the peak level in 1986.

None of the variables reported in Table II other than Building Permits and New Car Registrations changed by more than 4 percent from year-ago levels. Electricity and water consumption rose 3.8 percent and 1.2 percent respectively. On the other hand, newspaper advertising lineage declined 1.9 percent, and bank debits edged down 0.4 percent. Our sample of retail stores reported 1.4 percent lower sales per store, demonstrating again that the number of retail suppliers has outgrown consumer demand in some parts of Virginia. Total retail sales in nearly all areas undoubtedly rose last month, as will be confirmed next month by the taxable sales reports. But the story is quite different for individual merchants; many types in many areas of the state are experiencing lower volumes per establishment than at this time last year. That situation suggests retailers may offer more sales early in the Christmas season with more substantial discounts than usual.

The two lagged indicators, retail sales as reported by the Virginia Department of Taxation and nonagricultural employment, posted substantial increases in August. Total taxable sales rose 15.2 percent, showing total consumer demand in Virginia indeed is rising. Job growth of 4.1 percent also is a very favorable sign—new jobs are being created at an impressive rate in Virginia.

With three quarters of the year behind us, it is appropriate to review the state's 1988 economic performance. Building permits during the first three quarters have

Chart I

Nine Selected Business & Economic
Indicators Percentage Change

Percentage Change September, 1988 from September, 1987

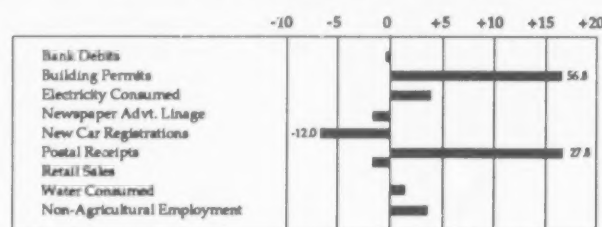
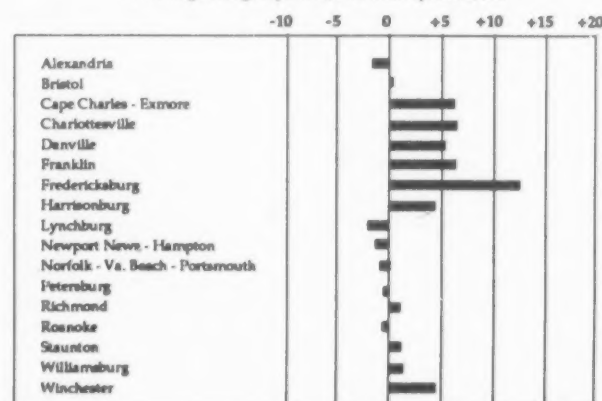


Chart II

City Indices

Percentage Change September, 1988 from September, 1987



exceeded comparable 1987 levels by 13.0 percent, sustaining the construction boom in Virginia and pushing construction jobs to all-time records. Payroll job growth has been a strong 4.2 percent (through August), about one-half percentage point below last year's gain—only a slight slowdown. Overall economic activity has shown good growth, gently decelerating. We definitely will finish 1988 in good economic health. RLP

Directing the Nonprofit Corporation

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A recent article by Peter Drucker in the Wall Street Journal noted that it has become almost a dictum that any executive who wishes to move up the corporate ladder must render service to a nonprofit or charitable organization—presumably on the board of directors. He also correctly noted that increasingly these organizations are becoming more businesslike in their operations.

Numerous nonprofits operate throughout the Commonwealth of Virginia. These include churches, hospitals, arts and cultural organizations, welfare centers for the needy of all ages, public radio and television stations.

The Virginia business community, as do business communities across the country, serves in a variety of ways. They donate dollars, products and services. A recent ruling by the United States Internal Revenue Service, which relaxes the need to appraise products donated from the inventory of a business to a charity, will remove some of the fears that both businesses and charities had in transferring such goods. It makes it easier, for example, for a supermarket to give away food to a food distribution center.

While there are no specific numbers on how much Virginia businesses give annually, nationally the figure is less than 2 percent of the pretax net income (profits before taxes) although the law permits such gifts to be as much as 20 percent of pretax net income. One reason for this, obviously, is that as important as charitable giving is, corporate profits also must be used to pay dividends to stockholders, to reinvest in the business or to otherwise expand. Hence, one way in which corporations try to meet their social responsibility is to encourage executives to be involved.

Here are a set of principles that should make such involvement more effective:

1. Recognize that a nonprofit organization is a corporation in very much the same legal sense that your

business is. The Commonwealth of Virginia spells out its purpose, powers and privileges. The central difference between your business and the nonprofit corporation is that the latter cannot issue stocks and cannot pay dividends. Therefore, it has to raise capital other than by appealing to individuals' desire for financial gain. Be aware that dividends need not be dollars. They include any transfer of value.

2. Speaking about transfer of value, it is important to avoid self dealing. Surely, a business may choose to have its corporate executives serve a nonprofit for purely charitable purposes; and surely others may view this service as a means of promoting a potentially profitable relationship. How this is done, however, requires prudence. The law prohibits self-dealing—not too dissimilar from insider trading—or the use of one's relationship with the nonprofit in order to achieve an economic benefit more clearly to the advantage of the individual or his business associates than to the nonprofit organization.

3. Recognize that unlike your business, the mission of a charity is not primarily a strategic planning statement subject to change by a vote of the board of directors. In a nonprofit organization, the mission is the legal purpose for its being. Drastic deviation from its mission therefore has both legal and tax consequences.

4. One way in which a nonprofit organization may deviate from its mission is by unwarranted involvement in commercial activities. The U.S. Supreme Court, as well as the Internal Revenue Service, has sanctioned the right of nonprofit organizations to conduct commercial activities for the purpose of making a profit. In the recent year, Virginia, some other states, and the United States Congress have been reviewing that law because of complaints of abuse. Without being immersed into that controversy, do note that one reason the U.S. Congress has backed away from imposing very stringent constraints on such activities is the recognition that some commercial activity by nonprofits is central to their survival and the welfare of the communities in which they operate. Thus, a function of corporate trustees is to help bring about some balance.

5. Clearly, one motive for having a corporate executive on the board is to improve the fiscal management of the organization. Unfortunately, managers of nonprofit organizations tend to focus on budgets at the expense of understanding financial statements and the stories they can tell. Moreover, all members of the board of trustees are legally liable for the fiscal well-being of the organization. To enable you to perform this function, I have prepared ten questions.

a. Was the revenue target in the budget met? If not, by how much was it missed and what were the reasons? Does it make sense, in light of recent experiences, to believe that such a target is reasonable? Should it be increased, decreased or kept the same? Why?

**SELECTED BUSINESS AND ECONOMIC INDICATORS
FOR 17 CITIES**

TABLE I October, 1988

Monthly Index Number Comparisons of Current Month to
Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGISTRATIONS	SEPTEMBER NON-AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		403.3	155.7	163.7	116.0	170.6	147.0	97.0	179.8	349.9
Alexandria	164.2	438.9	323.3	181.4	N.A.	150.5	203.9	105.9	247.4	N.A.
Bristol	134.0	N.A.	82.3	100.4	75.8	113.8	115.3	151.4	127.1	370.6
Cape Charles - Exmore	123.6	N.A.	397.5	150.1	N.A.	95.9	N.A.	N.A.	123.6	201.3
Charlottesville	203.0	151.7	404.6	147.6	N.A.	119.7	111.7	140.9	301.1	303.2
Danville	134.2	N.A.	518.8	123.1	138.1	84.6	100.2	86.0	N.A.	237.8
Franklin	151.8	N.A.	165.7	117.6	116.0	100.0	N.A.	95.1	133.7	227.9
Fredericksburg	434.0	198.8	228.4	N.A.	173.4	178.5	N.A.	89.3	360.6	1098.9
Harrisonburg	175.2	272.3	278.7	N.A.	159.2	102.2	N.A.	N.A.	282.3	301.4
Lynchburg	297.0	320.3	145.4	133.5	N.A.	106.4	99.3	139.2	216.9	834.8
Newport News - Hampton	150.7	N.A.	242.8	147.2	101.2	119.0	146.4	125.5	196.3	N.A.
Norfolk - Va. Beach - Portsmouth	160.4	506.4	204.3	184.3	115.8	115.8	N.A.	91.5	204.7	N.A.
Petersburg	125.8	273.4	663.4	N.A.	34.0	84.2	135.6	115.6	266.1	223.8
Richmond	163.6	416.1	75.5	181.0	129.7	116.2	135.6	110.8	193.2	308.6
Roanoke	165.1	361.9	140.6	116.3	180.0	82.4	120.8	103.1	235.5	299.3
Staunton	150.2	170.4	222.7	N.A.	86.0	92.9	N.A.	N.A.	204.5	N.A.
Williamsburg	191.2	163.1	473.2	199.0	N.A.	166.1	N.A.	110.0	208.7	361.1
Winchester	193.2	396.6	64.3	140.2	215.6	155.6	N.A.	N.A.	N.A.	N.A.

TABLE II October, 1988

Percentage Change from Same Month Last Year.

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGISTRATIONS	SEPTEMBER NON-AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	SEPTEMBER RETAIL SALES ‡
The State		-0.4	56.8	3.8	-1.9	-12.0	4.1	1.2	-1.4	15.2
Alexandria	-1.0	21.1	148.0	7.1	N.A.	-12.1	5.9	-5.5	-5.7	13.9
Bristol	0.2	N.A.	5.4	4.7	7.7	-3.3	2.6	-10.0	-7.9	23.9
Cape Charles - Exmore	6.1	N.A.	396.0	7.6	N.A.	0.0	N.A.	-1.7	0.2	36.2
Charlottesville	6.7	16.8	-0.3	6.7	N.A.	-3.9	3.6	2.1	4.8	31.0
Danville	5.1	N.A.	-42.9	-2.6	-6.5	13.6	1.8	1.1	N.A.	22.9
Franklin	6.7	N.A.	24.4	-1.0	21.7	8.2	N.A.	3.0	4.4	8.1
Fredericksburg	13.5	28.2	94.5	N.A.	3.6	18.3	N.A.	7.3	16.7	15.4
Harrisonburg	4.0	13.2	-5.0	N.A.	-3.1	-10.5	N.A.	N.A.	5.4	21.1
Lynchburg	-2.1	22.5	102.4	2.0	N.A.	-29.4	1.0	5.2	-1.3	8.3
Newport News - Hampton	-1.8	N.A.	4.4	1.0	0.0	-28.6	3.4	-8.6	-1.3	20.9
Norfolk - Va. Beach - Portsmouth	-0.6	-5.0	-21.0	1.6	-15.9	-15.9	N.A.	-0.5	-2.1	12.7
Petersburg	-0.1	-69.0	-63.3	N.A.	-2.2	-18.8	4.0	-1.8	5.8	0.9
Richmond	1.7	4.3	1890.0	3.9	-1.2	-7.3	11.6	-3.5	14.7	
Roanoke	-0.5	4.7	77.5	3.6	-8.4	-5.9	-2.1	2.9	-2.0	11.0
Staunton	1.8	-8.0	56.7	N.A.	5.7	-18.8	N.A.	N.A.	10.7	-8.1
Williamsburg	2.2	8.2	-93.3	-4.9	N.A.	-22.5	N.A.	6.0	7.4	14.7
Winchester	4.4	2.6	173.7	4.4	2.5	-13.3	N.A.	N.A.	N.A.	24.2

TABLE III October, 1988

Percentage Change January - September from Same Period Last Year.

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGISTRATIONS	JAN. - SEPT. NON-AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	JAN. - SEPT. RETAIL SALES ‡
The State		-5.3	13.0	4.6	-0.9	0.0	4.2	0.4	-1.6	6.9
Alexandria	0.0	14.0	159.6	7.3	N.A.	0.2	6.8	1.3	-6.9	4.9
Bristol	0.5	N.A.	-0.6	3.1	-11.5	11.6	5.6	7.1	-5.2	4.5
Cape Charles - Exmore	-1.5	N.A.	137.3	10.2	N.A.	12.2	N.A.	N.A.	-10.8	1.2
Charlottesville	5.5	-29.0	9.4	4.3	N.A.	4.8	4.5	1.9	6.7	8.7
Danville	4.2	N.A.	18.3	-1.3	1.7	11.7	2.1	-7.3	N.A.	18.0
Franklin	-4.7	N.A.	30.0	0.2	-2.3	-9.2	N.A.	-7.6	-2.0	-12.4
Fredericksburg	4.7	11.0	-24.2	N.A.	-0.1	7.5	N.A.	13.3	1.7	6.9
Harrisonburg	5.4	7.6	10.2	N.A.	13.5	0.7	N.A.	N.A.	1.8	13.1
Lynchburg	2.2	5.0	-8.3	2.5	N.A.	0.1	1.0	5.3	1.5	4.2
Newport News - Hampton	-2.1	N.A.	-0.2	1.4	-2.5	-10.6	-3.5	-8.7	-1.5	2.2
Norfolk - Va. Beach - Portsmouth	-0.4	-10.0	5.9	4.1	-8.7	-8.7	N.A.	-0.4	-0.7	2.8
Petersburg	2.9	-39.8	-23.0	N.A.	4.9	3.8	-3.8	5.9	1.4	0.9
Richmond	-1.4	-5.6	-1.3	4.3	-2.1	-0.1	0.7	6.7	-2.4	7.2
Roanoke	1.3	2.9	14.9	4.9	-2.2	-5.1	-0.7	2.7	0.0	11.7
Staunton	6.5	-1.8	17.4	N.A.	9.1	0.4	N.A.	N.A.	11.6	-5.3
Williamsburg	2.3	-12.0	-9.2	3.6	N.A.	-1.0	N.A.	4.8	2.0	2.9
Winchester	7.1	8.8	-72.3	2.4	3.8	9.8	N.A.	N.A.	N.A.	12.4

* Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

† Virginia Employment Commission data which lags behind current reports.

‡ Preliminary data based on a survey sample.

§ Revised data based on sales tax information which lags behind current reports.

|| Only total MSA data are available for these areas.

N.A. - Not Available
0.0 - No Change

b. What form and sources of giving (revenue) showed the greatest increase? In which aspect was the outcome most disappointing? Why? Is this a trend for the future?

c. What is the composition of financial support by source? Should the organization diversify? Does the composition leave the organization vulnerable to losing its tax-exempt status because too much emphasis is placed on commercial activities unrelated to the mission of the organization? Or, is its status as a public charity threatened because of an overdependence on one person as a donor?

d. What are the major cost factors in operating the organization? What can be done to contain costs and yet not reduce the commitment of the organization to its mission?

e. What costs are rising fastest? Why? Can they be contained? How?

f. What cost centers are exceeding their budgets? Why? Was the budget allocation unreasonable? Should these allocations be realigned? Do some centers need less while others need more resources? What programs should be dropped?

g. Should some functions be put on a self-financing basis? Will they survive? Will they be able to provide additional

revenues for the organization?

h. If there is a deficit, how will it be financed? How long will it be before recurrent deficits destroy the organization?

i. Is it time to change investment advisors, banks, insurance companies, board of trustees, managers?

j. If there is a cash surplus, how can it be used to finance the mission of the organization?

These ten questions, honestly answered, invariably will be adequate to provide guidance in financial planning for your organization. Each answer contains an element of fact and of judgment. For example, whether or not your organization has a deficit is fact. What strategies should be undertaken to deal with the deficit is a matter of judgment based on knowing the strategies that are available and which is most consistent with the organization's mission and capability.

Trustees and managers should not shy away from sharing their judgments in the belief that the subject is too technical or that the lawyers and accountants should make them. While few managers or trustees are cognizant of it, they can be held personally liable for the financial integrity of a tax-exempt organization. Their view is important.

For further guidance see the author's reference, Financial and Strategic Management for Nonprofit Organizations (Prentice Hall, Englewood Cliffs, New Jersey 07632). HJB

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